

## TAX CAP - ISLE OF MAN

The Individual Tax Cap was introduced with effect from 6 April 2006. The cap is currently £125,000 for an individual and £250,000 for a jointly assessed couple.

In order to be able to benefit from the Tax Cap an individual needs to be resident in the Isle of Man, and his/her total taxable income (before personal allowances) will be greater than £614,750, and double this figure if a couple is jointly assessed.

There is scope for tax planning where a couple is jointly assessed currently, and one spouse's income is considerably greater than the other, and on its own is greater than £614,750. In these circumstances it could be tax advantageous to elect for independent taxation, so that one spouse could take advantage of the Tax Cap.

In order for the Tax Cap to apply, an application in writing needs to be made to the Assessor of Income Tax. An initial meeting with the Income Tax Division may follow, to be attended by the taxpayer and/or his agent. However, it is possible that a meeting will not be needed if sufficient information is already held by them. At the meeting details of previous place of residence, location of income, and business and investment interests will be requested, and documentary evidence may be required. Once an election has been approved written confirmation will be issued by the Assessor.

With effect from 6 April 2014, the Income Tax Division introduced a "five year" Tax cap election which will remain in force for five consecutive tax years, the amount charged for each year being the value of the Tax Cap in the first tax year covered by the election. Once an election has been approved the Tax Cap will apply for each of the following four years whether or not the actual taxable income for a year is sufficient to produce a tax liability equal to the Tax Cap. However, legislation does recognise that changes to an individual's circumstances can occur during the five year election period. Examples of such changes include unforeseen changes in financial circumstances, exceptional circumstances, permanently leaving the Island. Please contact us if you would like any further information on the changes.

When the Assessor provides written confirmation to approve an election, the letter will state the annual amount of the Tax Cap and the tax years to which the election will apply. Once an election has been approved by the Assessor it cannot normally be varied or terminated before the end of the five year period to which it applies. However, it is not the intention that an Individual should, at the end of the five year period, find themselves in the position that they have paid more income tax in the Isle of Man than they would have done if no election had been made. For this reason, the



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Assessor will permit an individual with an election in place to be taxed on a normal basis for the time in which the election is in force should such a situation arise.

The 2014/15 tax year was the first year for which the five year Tax Cap election could be made and, for this year only, an election must have been made by 30 June 2014. Tax Cap elections for later years must be made before the start of the first year to be covered by the election. New residents to the Island may make an election for the tax year in which residency commences and the following four tax years, providing the Tax Cap election is made within 60 days of commencement of residence. Only in exceptional circumstances will the Assessor approve a late election for the Tax Cap.

Despite an application for the Tax Cap being successful a complete and accurate tax return is nevertheless required to be submitted annually.

If you would like to know more then please contact

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